MT/JTH

Confidential Filing

Review of Policy on Film Finance

Prime Minister's Seminar for The British Film Industry

TREASURY

July 1990

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
14.11.91							

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The Rt. Hon. Peter Lilley
Secretary of State for Trade and Industry

Barry Potter Esq
Private Secretary to
the Prime Minister
10 Downing Street
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Department of Trade and Industry

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14 November 1991

Dear Barry,

FILM INDUSTRY WORKING PARTY

I wrote to you on 10 June about the Film Industry Working Party on private sector investment, which is chaired by a DTI official. The Working Party is now close to completing its work. As a public row is likely to ensue, I thought it would be appropriate to fill you in on what has happened since I last wrote.

Individuals drawn from the non-production sectors of the industry were appointed to the Working Party in July. There have been indications that these individuals might be prepared to agree to some modest measures on training and marketing, for example, which would have a limited impact. The producers have, however, continued to push more radical ideas, in particular that the non-production sectors should make commitments about the level of their investment in UK production. The non-production sectors have rejected these ideas.

The Working Party is now preparing its report. A draft report prepared by officials was rejected by the producers. One of the members - not a producer, but sympathetic to their cause - is now preparing a new draft for the next meeting, provisionally fixed for 28 November. We do not yet know whether the redraft will have a better chance of acceptance by both producers and non-producers.

If the text is agreed, we would intend to convene another meeting during December to discuss draft recommendations. The Working Party has been told that only ideas on which there is unanimous agreement can be accepted as recommendations. The producers may nevertheless try to insist on their ideas being adopted by majority vote. Ministers here believe that such a demand should not be acceded to, even if it results in the breakdown of the Working Party.

It is possible is that the producers will agree to accept a more limited set of recommendations, although some have to date adopted an "all or nothing" approach. Under any scenario, a public row with the producers seems inevitable. This Department will be accused of not putting enough pressure on the other sectors to invest in more UK production, and there will be calls for action of some sort. The Prime Minister might also be criticised for failing to fulfil the expectations aroused by his predecessor.

We are confident that we can give a fairly robust response to criticism that we have not adopted the producers' ideas. The attached Annex provides a broad outline of the line that Ministers here intend to take, if a row develops.

If you have any comments on the line we intend to take, it would be helpful to have them before 28 November, in case the meeting goes ahead on that day

I am copying this to Jeremy Heywood (HM Treasury), Martin Le Jeune (Office of Arts and Libraries), John Neilson (DoEn) and Sonia Phippard (Sir Robin Butler's Office).

Yours ever,

Phil Bennett

PHIL BENNETT
Assistant Private Secretary

PE11247

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the department for Enterprise

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DRAFT

GOVERNMENT POLICY TOWARDS FILM PRODUCTION

We set up the Working Party to look at private investment in film production. We hoped that the producers and investors - especially other parts of the film industry - would find ways of working more closely together on a voluntary basis. During the last year, we have given them every opportunity to reach agreement, but they have failed to do so. [Indeed the producers have spurned the possibility of greater co-operation on training and marketing.]

The film industry exists to make films which people want to see. Investors are putting their money at risk, and they must be free to decide which projects offer a good chance of getting a return on their investment.

It would be quite wrong for the Government to interfere in this process. We are not going to confiscate investors' money or force them to spend it on films which they believe will lose money. Nor are we going to impose a levy which would push up the price paid by the consumer.

Producers need to study what film-goers in the UK and abroad want to see and persuade investors that their films will succeed. No Government can provide a short cut.
Wholesale subsidy cannot turn an unpopular film into a success.

The Government's role is to provide the framework in which the industry can operate. We give over £20 million a year to film, covering matters such as training, developing new talent, wider access to films and - through the new British Film Commission - persuading overseas producers to make their films in the UK.

Claims that the industry is in terminal decline are exaggerated. Demand for film is growing and about 40 films are made here every year. We would like to see more successful films, of course, but not just production for the sake of it. The industry can prosper only if it achieves the commercial success which generates further investment.

Econ Pol: Fiscal
Finance
Pt 3

P23/7

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

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23 July 1991

Dear Barry,

You spoke to Martin Stanley yesterday about your dinner with David Puttnam this evening.

Please find attached briefing, which covers the National Film and Television School (NFTS), the Film Industry Working Party, training, and taxation. The brief on the NFTS has been cleared with the Office of Arts and Libraries, who take the lead on NFTS matters.

Yours ever,

Phil Bennett

PHIL BENNETT
Assistant Private Secretary

PE7322

NATIONAL FILM AND TELEVISION SCHOOL (NFTS)

Point to raise

Appreciate all you have done in your capacity as Chairman of the NFTS.

Share your concern about level of funding from the film industry. I understand that Tim Renton and Hugh Reay are meeting tomorrow to discuss what can be done to try and increase industry contribution.

Background

The National Film and Television School (NFTS) is a Grant-aided body falling within OAL's responsibility. It is based at Beaconsfield, and provides post-graduate and post experience courses in creative and technical aspects of film production. It was set up in 1969 following an independent enquiry into the need for an advanced film training school, and became the National Film and Television School. David Puttnam is the Chairman. The OAL are providing £1.85 million funding this financial year.

Prior to the abolition of the Eady levy on cinema admissions, part of the proceeds of the levy went to the NFTS. On its abolition in 1985, a voluntary settlement was negotiated with the cinema exhibition sector whereby Rank and EMI (now Cannon) agreed to contribute £200,000 per annum to the School for the next 5 years. Separate settlements were negotiated with the BBC and ITV. The balance of the funding continued to come from OAL grants, fee income and film sales.

The BBC and ITV settlements expire in 1992. The settlement with the exhibition sector expired in 1990, by which point the film industry was meeting less than 10% of the costs of the School. Cannon have since agreed to cover their arrears for 1990/91 (£125,000), but have not yet made any commitment to further contributions.

The OAL have become increasingly concerned about the School's financial position, and particularly by the low level of industry contributions. Without substantial contributions from the film and video industry in 1991/92, NFTS are likely to have to cut-back expenditure by £500,000 out of a total budget of £4.7 million (including fees of £400,000).

OAL have been pursuing contributions from the video [and exhibition] sectors without much success, and Mr Renton is meeting Lord Reay, the DTI PUSS with responsibility for film, tomorrow to discuss what can be done to increase the industry's contribution to funding the School.

European Film Studio

David Puttnam and Colin Young (Director, NFTS) have put forward a proposal under the EC MEDIA programme for a European Film Studio which would house the development of film and television productions. The Studio would provide residential space, facilities for viewing and analysing film and television programmes, computers and other facilities for budgetting and other pre-production planning; and would provide an opportunity to strengthen European thinking and contacts among the up and coming generations of directors, producers etc. The DTI and the Office of Arts and Libraries are putting £5,000 each towards the cost of a feasibility study, which would be a precursor to a full project if the need is proven.

DTI Films Branch
July 1991

DTI FILM INDUSTRY WORKING PARTY: TRAINING

Line to take

As you know we have told Working Party that we do not intend to introduce legislation. Believe it would be constructive if members were to look at areas where consensus between the sectors might be possible. If they were to do so, we still believe that something positive can result - training seems one possible area. Hope to build on the Industrial Training Organisation recently set up for the sector.

Background

Amongst the initiatives resulting from Mrs Thatcher's seminar in June 1990, a Working Party, chaired by the Department of Trade and Industry, has been set up to report to the Secretary of State on how to increase private sector investment in UK film production.

Initially the Working Party was made up mainly of producers, and has been meeting since October last year. It completed the first series of consultative meetings with other sectors of the film industry at the end of January. Most of the important ideas put forward by the Working Party at the consultative meetings were rejected by the other sectors.

Some members of the Working Party then asked whether the Government would put pressure on the other sectors - e.g. to give commitments to invest in production. Lord Hesketh (then Minister of State at the DTI) informed them that there were no plans to introduce legislation. The Working Party should concentrate on seeking voluntary solutions to the problems that face them. As regards television, Lord Hesketh felt it was legitimate for the Working Party to look at existing regulatory mechanisms.

People drawn from the other sectors of the industry have now been appointed to the Working Party, and the first meeting with the expanded membership took place on 8 July. It now seems unlikely that the Working Party will be in a position to report much earlier than the end of October. The producer members continue to press for those ideas which they see as being essential for a significant increase in the level of UK production, but most of which appear unlikely to be acceptable to the other sectors. These include: commitments from the

distribution, exhibition and pre-recorded videotape sectors to invest an agreed proportion of their UK revenues into UK production; a blank videotape levy; UK film slots (at cinemas and on television); and the involvement of ECGD in guaranteeing the credit worthiness of overseas buyers.

Of these, only the last seems likely to be acceptable to other sectors. Officials have advised the current members that their interests may be better served by concentrating on ideas which, while they may have a less dramatic effect, might at least prove broadly acceptable and therefore have the chance of being acted on. It remains to be seen whether members will act on this advice.

Mr Puttnam has been more realistic in his approach than most of his colleagues. He is particularly keen to see training issues given more prominence by the Working Party, as he shares our view that this is one area in which consensus might be possible. He recently wrote to No. 10 on this issue. A copy of this correspondence is attached.

Since then, there have been further developments in the area of training. In June a group of organisations representing the television, film and video sectors put forward a proposal for the establishment of an Industry Training Organisation (ITO) to the Department of Employment. That Department has recognised the Broadcasting, Film and Video Industry Training Organisation (BFVITO) as the ITO for these sectors. The ITO will have a mainly strategic role.

The DTI has recently received a letter from the National Film and Television School (copy attached) raising questions about Government policy towards the School and the wider issues of training in the sector. These will be debated at the next meeting of the Working Party on 30 July.

DTI Films Branch
July 1991

ENIGMA PRODUCTIONS LIMITED

Andrew Turnbull

24 May 1991

PERSONAL

Dear Andrew,

I'm sorry to impose on you, but in fact I'm following up on our conversation in June of last year immediately following the Prime Minister's seminar on the film industry.

You may not remember, but my contribution exclusively related to the provision of training and, most particularly, the future of the National Film and Television School, of which I have the privilege to be Chairman.

As you may know, the Working Party set up by Mrs. Thatcher has now been meeting for six months and it's fair to say that not a great deal has been achieved.

Most of the initiatives which have been suggested by the production sector seem to have been pretty well aimed off or, in some way, blocked by the distributors and exhibitors - this situation isn't very likely to alter.

During the period in which the various working parties have met, I've kept quiet on the issue of training because it was seen by many of my colleagues as the soft or minimum cost option when it came to all-industry funding.

I'm very keen to revive the issue before Mrs. Thatcher's entire initiative grinds to a halt but, in order to do so, I need help in the form of a quiet shove from the other end.

For my own part, I've always been slightly ambivalent about straightforward state funding for the cinema, preferring instead a support mechanism which ensures the provision of a superbly trained creative workforce, and some form of seed-corn to enable that workforce to establish its credibility.

This week we start all over in an attempt to educate and enthuse our 12th (!) films minister in as many years. I would be grateful for <u>any</u> advice you could offer as a means of tying Mrs. Thatcher's original initiative into at least the <u>one</u> serious outcome which could, in the long-term, work to the industry and the country's advantage.

Cont'd...

Whilst writing, can I raise one other small point? A few years ago I wrote to Number Ten suggesting Lord Brabourne for serious consideration for an honour in respect of his extraordinary contribution to film and television in this country. A few months ago he was the subject of THIS IS YOUR LIFE, and I at last had an opportunity to express on air what all of us in the industry have always known, that he has been the one solid and constructive source of encouragement and enthusiasm, and has helped steer the industry through the worst of the rapids it's encountered.

I get the sense that his inherited title in some way mitigates against him receiving the contemporary recognition he deserves.

Is there any way in which this can be rectified, or brought to the attention of those who make this type of judgment?

I would be more than happy to write rather more fully, but I do need to know who to write to and when.

Sorry to bother you with all this, but with the anniversary of the Downing Street Seminar rapidly approaching, it seems an appropriate time to try to win something constructive, albeit a year later!

Kindest personal regards,

David Puttnam

DP/vk

file:- WP Training FV 591

For Information
MR PRIDE TP
EL JR LR SPG
MR. LANE
MR. SALVIDGE TP
MR. MAYHEW
MR. ANISFELD
MS. CAINES
MR. YEARLEY INF
MR HODGE TP
[redacted]

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 June 1991

Thank you for your letter of 24 May to Andrew Turnbull here. I believe it was actually me that you spoke to after the seminar last year, and so Andrew has asked me to reply.

I understand that you have written to Stephen Pride at the DTI on this subject, and that he has suggested that you write an open letter to him and the other members setting out the various training initiatives. I am sure that is the best way to ensure that these initiatives get on to the Working Party's agenda.

Andrew Turnbull will write to you separately about the honours case you mentioned.

BARRY H. POTTER

David Puttnam, Esq., C.B.E.

FW161 Pay 591

.NFTS The National Film and Television School

Beaconsfield Studios, Station Road, Beaconsfield, Bucks, HP9 1LG
Telephone: 0494 671234 Fax: 0494 674042

MR HODGE

COPY SENT TO SUE BROWN - OAL FAX..

18th July 1991

Stephen Pride, Esq.,
Department of Trade and Industry
Films Branch,
151 Buckingham Palace Road,
London SW1W 9SS.

Dear Stephen Pride,

FILM INDUSTRY WORKING PARTY: TRAINING

Further to your letter of 5th June, the following notes outline our strategy for putting training on the agenda of the Working Party.

1. The analysis we have made for the OAL of funding patterns for the work of the NFTS since 1970 reveals that since the formation of the School (1970) to the end of 1990, the public sector (OAL) has contributed just over 53% of the total. The balance is made up as follows: film - 17%, BBC 7.25%, ITV/C4/SAC - 13% and fees/miscellaneous - 10%. The OAL has indicated that it is current Government policy to reduce the public sector's share (1986-1990 - 47%) and, in any case keep it below 50%. This has made the School sensitive to shifts in fortune within the private sector. The effects of the recession on the film industry and of the restructuring of the television industry make it harder than ever to predict total revenue from these sources. This has nothing to do with the industry's perception of the NFTS.

2. The value of the NFTS can best be illustrated by the attached list of contributions made by its graduates to British film and television in the last year (1990). Both in terms of breadth of penetration and in terms of quality it is, as Alan Yentob said recently, hard to understand how so much could have come from one (relatively small) source.

3. There is no rational link between the training benefit received by the end user (broadcaster, film industry, etc.) and the contribution made by each sector to the training cost. This must be addressed first by those Government departments with an interest in the audio-visual market and second by the private sector whose future depends on the talent base being regularly re-supplied in order to keep it as broad as possible. (A narrow talent base only has the effect of forcing costs up).

4. The Government departments concerned are the DTI, the OAL, the Home Office, the Department of Employment, and the Treasury. We need from these departments a cohesive, centralised approach to an appropriate policy for training in our industry. We need a round table with them to establish
   - the priorities and the precise interest of each, and the role they can play in policy articulation
   - allocation of responsibility for the lead role in negotiations with the private sector
   - identification of the officials/ministers with whom the NFTS should work in negotiating with the industry.

5. When an agreed approach to the industry has been developed, the NFTS (with appropriate departmental support) would then organise a similar discussion with all current funders of the NFTS (and its subsidiary the NSCTP) to argue through the agreed strategy. The agenda for such a meeting would include the following -
   - an assessment of what would be lost, as an industry resource, in both the short and long term, if the NFTS were to close
   - the virtual absence at present of <u>any</u> funding from the film industry
   - the inappropriately low level of support from the video industry
   - the comparatively high share of NFTS costs being presently covered by Channel 3 companies, whose contributions, may be significantly interrupted by the franchise allocation process
   - the level of support emanating from C4 and S4C
   - the level of support from the BBC and its long term commitment to freelance training
   - the identification of other end users of training and of strategies to secure their support.

6. As background to the above we are carrying out an analysis of the training commitments in the franchise applications for Channel 3 licenses, to see how well the ITC guidelines have resulted in bids which make adequate provision for training. Other general issues to be examined, include:
   - how can the industry (all sectors) be sure they are getting value for money in training ventures and does the industry believe it has in place adequate monitoring mechanisms to reassure itself that it is getting the training it needs?
   - how well can the industry distinguish between its short term needs (often met by the NSCTP) and its long term interests (the focus of the NFTS post-graduate programme)?
   - in other words, can the industry understand that its training infrastructure is not something which can be turned on and off like a tap? (We are unable to react rapidly enough for training to be dealt with as a form of crisis management).

- have we adequately articulated our role within the British and European film and television industries, not only as a training body, but also as an integral part of the industry's permanent development?

After a number of years of disappointment, and several false starts, we sincerely believe that this proposal represents the most constructive and viable way forward. We look forward to hearing your views, and those of your colleagues, on how all of this can be made to fit within the overall remit of the Film Industry Working Party.

We are convinced that any serious discussion of training must embrace all sectors, since the talent and the skills which are themselves available on an industry wide basis. It would be entirely counterproductive to try to identify and isolate the specific needs of any one sector.

No doubt you will wish to respond to this note prior to any meeting at which these issues are scheduled to be discussed. It goes without saying that we will be available for further discussion at short notice.

Yours sincerely,

Colin Young, Director.
David Puttnam, Chairman

Encs.

CY/ac

FILM INDUSTRY TAXATION

Line to take

The Government remain sympathetic to the industry's case.

Treasury officials have been meeting industry representatives to discuss various ideas.

Background

As a result of Mrs Thatcher's seminar on film production last June, the film industry set up a Fiscal Incentives Working Party, which put proposals to Treasury ministers in October. The proposals were:

a) to establish a scheme modelled on the Business Expansion Scheme but with tax incentives for corporate investors in film as well as private investors;

b) to allow accelerated write-off of capital expenditure; and

c) to reduce the tax burden on foreign artists who visit the UK to make films.

None of these proposals was adopted in the Budget, but the Chancellor did say that he remained sympathetic and was prepared to consider any alternative proposals. Discussions between Treasury officials and the industry have continued, and the Chancellor has twice met Sir Richard Attenborough and Wilf Stevenson (Chairman of the Fiscal Incentives Working Party). During the recent debate on the Finance Bill, the Financial Secretary reaffirmed the Treasury's willingness to discuss various proposals with the industry.

DTI Films Branch
July 1991

A: PUTTNAM

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

4 July 1991

Many thanks for your letter of 29 June. It was really very kind of you to write.

Please do not trouble about the confusion over the names.

For my part, I must apologise for not responding to your telephone call.

I am sure that it is revealing no deeply-held official secret to say that the switchboard's instructions here are to screen away calls from the Private Office. An over-zealous telephone operator only explains afterwards, sometimes long afterwards, who has telephoned during a particular week!

BARRY H. POTTER

David Puttnam, Esq., C.B.E.

G.R.
Back-papers
BHP 4/7

CF. R 3/7

ENIGMA PRODUCTIONS LIMITED

Pinewood Studios, Pinewood Road, Iver, Bucks SL0 0NH. Tel: 0753 630555. Fax: 0753 630393. Telex: 849577 Enigma G.

Barry H. Potter
Private Secretary to Prime Minister
10 Downing Street
London SW1A 2AA.

29 June 1991

Dear Mr. Potter,

I tried to call you last week in an attempt to apologise for having got our lines crossed this end when writing on the subjects of both Lord Brabourne, and last year's Prime Minister's Seminar on the Film Industry. Unfortunately we referred to the updated Vacher's rather than our own internal files. It's the kind of mistake I absolutely hate making, and I very much hope you'll accept my apology.

You're right in believing that we have been in constant negotiation with Stephen Pride who has been both helpful and thoroughly supportive. It was my sense that Stephen's position could only be helped by a reference back to the sentiments expressed on June 15th last year that lead me to seek your support.

Everyone wants something concrete to emerge from the original initiative. I've always thought that training represents the most cost-effective and tangible way forward. Getting both my colleagues and elements of Government to share that belief has been a very long, tough haul!

Kindest regards,

Yours sincerely,

David Puttnam

DP/vk

ECON Pol: Film Finance PT3

CH?

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

Vice for C: economic / Puttnam cc DT

13 June 1991

Thank you for your letter of 24 May to Andrew Turnbull here. I believe it was actually me that you spoke to after the seminar last year, and so Andrew has asked me to reply.

I understand that you have written to Stephen Pride at the DTI on this subject, and that he has suggested that you write an open letter to him and the other members setting out the various training initiatives. I am sure that is the best way to ensure that these initiatives get on to the Working Party's agenda.

Andrew Turnbull will write to you separately about the honours case you mentioned.

BARRY H. POTTER

David Puttnam, Esq., C.B.E.

Andrew,

You may recall this letter. I have dealt with my section (mainly by deleting half the DTP draft).

Do you want to add anything about Honors – or write separately? Rip 12/6

K 10/6.

BP

The Rt. Hon. Peter Lilley MP
Secretary of State for Trade and Industry

Barry Potter Esq
Private Secretary to the
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10 June 1991

Dear Barry,

Thank you for your letter of 29 May, enclosing one that Andrew Turnbull had received from David Puttnam. Mr Puttnam has written along the same lines to Stephen Pride in this Department, who chairs the Film Industry Working Party to which Mr Puttnam refers in his letter.

I will use this opportunity to bring you up to date on how the Working Party on film is progressing, in order to put Mr Puttnam's letter in context.

The Working Party - which at present consists largely of producers - developed a number of ideas for increasing investment in production. These ideas have been discussed with a large number of consultees from all the major companies in television broadcasting and the film distribution, exhibition and video sectors. The main idea explored was to ask these sectors to commit voluntarily a proportion of their UK revenues to UK film production, and allocate screen time to films made in this country. The responses were largely negative and, in some instances, hostile.

In view of these reactions Working Party members sought clarification from the Department on whether we would be prepared to put pressure on the other sectors. Ministers informed the members that there are no plans to introduce legislation covering distribution, exhibition or video and that they would not threaten legislation or investigation into alleged anti-competitive practices in order to induce commitments to invest in film production from the non-production sectors. Ministers said that they would be prepared to consider suggestions from the Working Party for legitimate ways in which the Government could encourage these sectors to take a more active role. If evidence of anti-competitive practices were forthcoming we would of course consider formally investigating them.

The Working Party will shortly move into its second phase when it will be enlarged to incorporate members from the distribution, exhibition, video and television sectors. Ideas already raised with these sectors will be further discussed with a view to formulating recommendations. Since the main ideas concerning investment in production are unlikely to be adopted by consensus we consider the best way forward is to search for common ground, by devising more modest proposals or packages of proposals which are able to attract the voluntary support of the sector or sectors concerned.

Such proposals, however worthwhile, will not address the fundamental problem of lack of investment in film production which the film seminar held at Downing Street last year and the Working Party itself were called upon to address. Moreover, the rejection of the industry's proposals relating to taxation means that a reversal of the industry's fortunes will not be achieved by that avenue either. The article from the Economist attached to David Puttnam's letter is one of many recent items highlighting the slump in UK film production and reflects the industry's concern at what it regards as Government inaction.

The proposals finally adopted by the Working Party might well cover training. There are two ideas already being considered by the Working Party, which accord with Government policy. These concern the establishment of a body to co-ordinate industry training; and industry funding for the National Film and Television School, in which David Puttnam as Chairman of the School has a direct interest.

In his letter to Stephen Pride, David Puttnam refers to a package of training initiatives on which preliminary discussions have been held with Rank and some US majors but it is not yet clear what these initiatives involve. Stephen Pride has therefore invited Mr Puttnam to submit them to the Working Party for discussion. The enclosed draft letter welcomes Mr Puttnam's approach to the business of the Working Party and encourages him to respond to Stephen Pride's invitation.

I am copying this letter to Jeremy Heywood (HM Treasury), Martyn Waring (D Emp), Colin Walkers (Home Office), Martin Le Jeune (Office of Arts and Libraries) and Sonia Phippard (Sir Robin Butler's Office).

Yours

Phil Bennett

PHIL BENNETT
Assistant Private Secretary

JW6080

dti
the department for Enterprise

Sorry - would not scan.

David Puttnam
Enigma Productions Ltd
13 Queen's Gate Place Mews
LONDON SW7 5BG

Thank you for you letter of 24 May to Andrew Turnbull here. I believe it was actually me that you spoke to after the seminar last year, and so Andrew has asked me to reply.

I cannot let your assertion that Mrs Thatcher's initiative is in danger of grinding to a halt pass without comment. Both the European Co-Production Fund and the UK Film Commission, representing between them £8.5 million of Government expenditure, have come to fruition. We are actively involved in the various European programmes, and the Chancellor has said that he will consider sympathetically any new proposals on tax that the film industry may put foward over the coming year.

That said, I would agree with you that progress to date on the DTI Working Party has been disappointing. It is not for me to comment on the merits or otherwise of individual ideas that have been discussed by the Working Party, but it does seem obvious that the best chance for making real progress, particularly now that representatives of the non-production sectors are about to be invited to become members, is for the Working Party to focus on those areas where some form of consensus might be achievable. It may well be that training is such an area. It is certainly difficult to see that there could be any objections to the principle of industry involvement in improving training.

I understand that you have written to Stephen Pride at the DTI on this subject, and that he has suggested that you write an open letter to him and the other members setting out the various training initiatives. ~~This seems to me the best~~ I am sure that is the best way to ensure that these initiatives get on to the Working Party's agenda.

Andrew Turnbull will write to you separately about the Hungarian case you mentioned.

POTCL2

The Rt. Hon. Peter Lilley MP

CONFIDENTIAL

cc PS
n.b. P.M.
BHP
11/6

The Rt Hon David Mellor MP
Chief Secretary
HM Treasury
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Direct line 071-215 5622
Our ref PE6064
Your ref
Date 10 June 1991

Dear David

UK FILM COMMISSION

File with BP.

Thank you for your prompt agreement to my proposals to establish the UK Film Commission. At the Cannes Film Festival Alexander Hesketh announced this and - as you suggested - the coming into operation of the European Co-production Fund.

My proposal does fit in with the Department's relaunched objectives, because it will improve the provision of information to business about the opportunities for making films in the UK, thereby helping to sustain our existing base of skills and technical facilities. It will also help to reduce burdens by improving the relationship between producers, the police and others whose co-operation is needed for the shooting of the film. Although the activity is analogous to promoting inward investment, I do not believe that it would sit well in our inward investment organisations since it requires a close understanding of the needs of a film producer and a comprehensive database on the locations and skills available. Our existing support for the film industry is directed at UK producers and, through them, on the many suppliers both in and outside the film industry of goods, services and skills.

My officials are in touch with yours about the offsetting savings we have identified this year, and we will certainly try to avoid an overspend if we can. The appropriate level of expenditure on the film industry in future years is something we will have to address in the bilaterals. As for local government expenditure, although we do not expect the Film Commission to encourage local authorities to set up local bodies, it will explore the possibility of a separate body to

handle enquiries relating to London. At this stage I do not believe we should rule out the possibility of a modest contribution to this from local authorities.

My officials will discuss with yours the status of the UK Film Commission, and I can confirm our intention to hold a fundamental review within three years.

I am copying this letter to the Prime Minister, Norman Lamont, Douglas Hurd, Kenneth Baker, Michael Heseltine, Ian Lang, David Hunt, Peter Brooke, Tim Renton and to Sir Robin Butler.

Yours ever

Peter

Econ Pol: Film Finance

Pt 3.

PUTTNAM

12/6

SRW

d economic/puttnam

(KK machine)

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

No acks/ 29 May 1991

– (held in honours)

I attach a copy of a letter which Andrew Turnbull here has received from David Puttnam.

I should perhaps explain that I think David Puttnam spoke to me rather than Andrew following the film seminar about a year ago. But he has understandably adhered to the principle of always writing to the man at the top.

I think it would be helpful if we could respond positively to this letter - first because I suspect the case has some merit and second because the Prime Minister will be anxious not to unduly disappoint such an influential representative of the film industry.

I would therefore be grateful for an appropriate draft reply which I might send to David Puttnam. Please ignore all the material suggesting an honour for Lord Brabourne. We can deal with this through our own systems.

(BARRY H. POTTER)

Martin Stanley, Esq.,
Department of Trade and Industry.

K

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CONFIDENTIAL

CC PU

N.O. P.M.

BAP

7/5

Treasury Chambers, Parliament Street SW1P 3AG
071-270 3000
Fax 071-270 5456

The Rt Hon Peter Lilley MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London
SW1H 0ET

7 May 1991

Dear Peter,

UK FILM COMMISSION

Thank you for your letter of 1 May.

2. I confess I am not clear how your proposal to create a UK Film Commission fits in with the objectives for your Department which you re-launched recently. It appears to entail a number of policy difficulties which I assume you think can be dealt with satisfactorily. For instance, it may be seen as a single industry state aid; there appear to be no market-failure arguments in support of the proposal; and it may weaken your hand a little in resisting similar pressures from other industry lobbies. Your department already provides support for the industry, and you already have inward investment agencies at the UK, England and regional level.

3. Your suggestion that it may be necessary to seek new money to fund the Commission in the Survey period is also very disappointing against the background of my minute of 24 April on public expenditure after the Budget and the Prime Minister's response.

4. However, I recognise that since the Seminar at No. 10 last year, expectations in the film world that the government would provide some further encouragement, on top of the £5 million pledge for European co-production made at the seminar, have been high. I am therefore prepared to agree to your proposal and to its announcement by Lord Hesketh at the Cannes Film Festival, subject to the following conditions.

5. First, while I welcome your commitment to find offsetting savings in 1991-92, I would like to confirm that the savings will be found from within Class IV, vote 1. As this Vote is non-cash limited, any agreement is on the understanding that you will take any necessary steps to avoid an overspend on this Vote this year. For the future, my officials are in touch with yours about transferring film industry support to your cash-limited vote.

6. Second, while I note that you intend to raise this issue as part of the Survey, it must be understood that I am not able to accept any such increase over your existing baseline in the Survey period. Offsetting savings must be found. And I must ask that the Commission does not add to public expenditure by encouraging local authorities to set up local bodies.

7. Third, I am concerned that we should not be seen to be setting up a permanent quango. I would therefore like our officials to discuss the status of the body. And I would also like there to be a fundamental review of the need for the Commission and its effectiveness within three years time.

8. It has to be recognised that we will continue to be under pressure from the industry not withstanding this announcement. In this connection I understand that there are still complaints from the industry that no payments have yet been made under the £5 million European Co-operation Fund announced at last year's seminar. My officials have discussed this with yours, and I understand that the process of the renegotiation of BSF's contract has delayed the Fund's operation. But progress towards an agreement on this score would presumably help presentationally, and might provide additional good news if Lord Hesketh could also announce imminent payments from the Fund at Cannes.

9. I am copying this letter to the Prime Minister, Norman Lamont, Douglas Hurd, Kenneth Baker, Michael Heseltine, Ian Lang, David Hunt, Peter Brooke, Tim Renton and Sir Robin Butler.

DAVID MELLOR

ECON POL: Films pt 3

010.

<cPU

The Rt. Hon. Peter Lilley MP

N.S. P.M.
at this stage
PTP 2/5

The Rt Hon David Mellor MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AQ

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Enquiries
071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071-215 5622
Our ref PE4394
Your ref
Date 1 May 1991

Dear David,

UK FILM COMMISSION

I am writing to seek your early agreement to the DTI funding a new body, the UK Film Commission, whose main task will be to persuade film and television producers overseas to make their films in the UK. The cost will be roughly £1m a year - the precise figures have been given to your officials together with the detailed case. I would find offsetting savings in the current financial year: provision for future years would be for consideration in the Survey.

For many years films financed by Hollywood have represented more than half UK production. The best prospect for reversing the recent decline in production here lies in promoting the attractions of the UK - our language, locations and skills base - to the USA, just as we promote inward investment. We do not offer the tax incentives that other European countries do, but we could be the first European country to establish a national Film Commission, a promotional body which every State in the USA has established.

We agreed to look at this idea at Margaret Thatcher's seminar on film production last year, a seminar which aroused great expectations in the industry. We have faced a spate of bad publicity recently because these expectations seem likely to be disappointed. There was nothing in the Budget and the Working Party on private sector investment, chaired by my Department, has failed to come up with ways of boosting voluntary investment. I do not see that there is any case for legislation to reintroduce a statutory levy. So the Film Commission may be the only significant initiative we have to offer.

dti

the department for Enterprise

The UK Film Commission will work closely with a small number of film commissions already planned or set up by local authorities. There will need to be a separate commission for London but otherwise I do not expect our initiative to lead to additional local government expenditure.

An early announcement would help to counter the bad publicity and enable the Commission to prepare for the major annual international exhibition for Film Commissions in Los Angeles next February. The Cannes Film Festival provides an ideal opportunity to obtain international publicity and I would welcome your agreement in time for an announcement on 12 May.

I recognise that you will be reluctant to argue even this small commitment in advance of the Survey, particularly in the light of your recent minute, but I do consider it to be justified in the exceptional circumstances of this case.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Foreign Secretary, the Home Secretary, the Secretaries of State for the Environment, Scotland, Wales and Northern Ireland, the Minister for the Arts and Sir Robin Butler.

Yours ever

Peter

010

dti

the department for Enterprise

R10/7

n.b. P.M.

BHP 10/7

Private Secretary,

The attached is the revised minutes of the P.M's film seminar. Please replaced it with the one attached to Rosalind Cole's letter to Barry Potter of 6 July.

Apologies for any inconvenience caused.

APS/SOS

071-215 5425

10 July 1990.

ch

SEMINAR ON THE FILM PRODUCTION INDUSTRY

10 DOWNING STREET, 15 JUNE 1990

Present:

Prime Minister

Secretary of State for Trade and Industry

Minister for the Arts

Parliamentary Under Secretary of State for Industry and Consumer Affairs

Industry Speakers

Sir Richard Attenborough

Mr Simon Relph

The other participants are listed at Annex A

Introduction

1 **The Prime Minister** welcomed participants and looked forward to a stimulating discussion. She noted that film, television and video were among the great technological innovations of the twentieth century which had widened choice and added to the quality of life; and that British film makers had much to offer. The Prime Minister added that the seminar provided an opportunity for the industry to start to reverse its current state of decline.

2 The Prime Minister said that it was Government's role to provide an economic framework which would ensure success, while it was for industry to provide entrepreneurial and creative skills. She believed then the industry was not making as much use of its talents as was possible.

3 **Sir Richard Attenborough** confirmed that the industry had not come to complain or beg. He listed recent box office successes but explained that the receipts did not go back into production but were mainly absorbed by distributors (chiefly US majors) and exhibitors. He thought that with the right opportunities the industry would be financially viable. Sir Richard explained that since British Film Year 1986, cinema audiences had grown from about 53 million to expectations of over 100 million in 1990. Interest in cinema going had been rekindled not only in the UK but also in Europe. He noted that the contribution to the overseas earnings from film and television were £358m in 1988. Sir Richard thought that, given some pump-priming help and incentives for investment, the industry could continue to contribute to the economy and grow in success.

First Industry Paper

4 Simon Relph presented a paper which dealt with the difficulties of raising investment for film production and the current state of the production sector. He noted that, unlike the largely vertical structure of the US industry, in the UK production was divorced from the distribution and exhibition sectors; he sought to establish a case for a reassessment by Government of the industry. Mr Relph thought the potentially high overseas earnings warranted Government action to prevent the industry from disappearing. He sought measures to encourage distributors and exhibitors to invest in production, although he recognised that the reintroduction of either a levy on cinema admissions or 100% capital allowances were undesirable. He also sought ways of encouraging television and video companies to take on investment risks.

5 Mr Relph explained that British producers felt themselves disadvantaged compared with potential European, Canadian and Australian co-production partners, all of whom could call on substantial state aids.

6 Mr Relph referred to a number of organisations which helped promote British film and in particular welcomed the development of Local Authority Film Commissions designed to help production their areas.

7 Mr Relph also described the British Film Partnership, an arrangement negotiated between unions, actors, technicians and the facilities sector, which enables low budget films to be made with fewer people for reduced costs. Under the scheme participants in a film were paid less than the normal rate initially, with the balance being met from UK revenues. The aim was to enable films to be made to appeal to particularly British tastes and which therefore could not rely on overseas sales.

8 In the context of labour costs, Mr Relph stated that, over the last 5 years, technicians employed on films in which, eg British Screen had invested, had been paid at the same rate, without increases for inflation. In contrast, the cost of employing actors had risen. This was because, in order to finance productions, it was necessary to secure international pre-production sales and this meant employing more internationally renowned actors (notably US).

9 Mr Relph concluded that the industry's position was paradoxical: there was a high demand for its products but insufficient investment to produce. He thought that if Government could help improve the climate for investment the industry should be able to stand on its own feet and make a greater contribution to the economy.

Government paper

10 The Secretary of State then gave a paper (circulated in advance to Ministers and officials) outlining the Government's policy toward the film industry, in the context of its broader

economic an industry policies.

Discussion

11 Points raised in the first two papers were elaborated on by other participants.

Investment

12 **Otto Plaschkes** referred to the high profits which could be realised in the UK from distribution, exhibition and sales of film and video products, but explained that very little was recycled into UK production. He thought the City had a negative attitude toward film investment as, although some banks would provide cash-flow facilities, they would not participate in equity investment. Mr Plaschkes called on the Government to create a framework which would enable film and video distributors and financiers to invest in production.

13 **The Prime Minister** replied that the Government was not preventing other sectors from investing in production. If there were some legal blockage which prevented an integrated structure from developing it would be for Government to tackle the problem. If, however, the lack of investment by distributors and exhibitors were simply a question of commercial judgement the problem would be for the production industry to deal with.

14 **Wilf Stevenson** explained that producers sought a mechanism which would encourage other sectors to invest in production.

15 **Simon Linnett** referred to Rothschild's experience of investing in Goldcrest, which had crashed at the expense of City investors. He said the entertainment industry generally had a poor reputation in the City, and cited further examples (The Really Useful Company and Virgin) which had not performed as well as they might have done.

16 Mr Linnett thought the rate of return typical of film investment - 20% - low, compared with returns from similarly high-risk venture capital investments at 25%. He suggested that 100% capital allowances would provide a return of 25%.

17 Mr Linnett suspected that UK film producers were more concerned with critical acclaim than profits and said that the City should not be criticised for not investing in products which were not commercially viable.

18 **Premila Hoon** explained that while Guinness Mahon had financed film production for over 10 years, this was always on the basis of discounted cash flow secured against guaranteed equity investment from other sources. City investors, used to speculation and high risk, did not regard film production as a serious business because revenues were uncertain. A more positive climate prevailed in the US, where attitudes to risk taking were different. Ms Hoon thought a constructive environment was needed in the UK to make film investment

attractive. She suggested a fund be created which would give tax breaks to private investors whose investment was matched £ for £ by the film industry. If British Screen managed the fund the scheme would have the benefits of (i) a wide portfolio (to spread risks), (ii) management by experienced film financiers; (iii) the possibility of high leverage; and (iv) increased bargaining power when negotiating distribution deals.

Film and television

19 **Lord Brabourne and Sir Ian Trethowan** thought the change in the ITV levy had deterred television companies from investing in film production.

20 **The Prime Minister** pointed out that costs to advertisers on ITV Channels had risen to prohibitive levels and downward pressure had to be exerted on prices by changing to a revenue levy.

21 **Ann Skinner** explained that television companies in Continental Europe were more involved in film production, and contributed a larger proportion to film budgets than their British counterparts. British product was competing with a cheap and constant supply of English language material from the US which depressed the value of the domestic product.

22 **The Prime Minister** pointed out that competition between television channels was novel in the UK; the ITV companies had for years enjoyed a monopoly not experienced by other European channels.

State aids

23 **Simon Perry** described the advantages available to French production, including investment incentives and a domestic cinema sector much larger than the UK's.

24 **The Prime Minister** thought that the various subsidies available in other Member States should be challenged through the EC Commission in order to create conditions which did not distort competition.

Second Industry Paper

25 **Sir Richard Attenborough** summarised the points made in the previous discussion and put forward a number of proposals to stimulate the production sector:

(i) the Government should declare its support for the EC's MEDIA 95 programme;

(ii) the Government should make available pump-priming funding for European co-production;

(iii) promotional bodies should be created to market British film overseas and to encourage and facilitate film making in the UK;

(iv) a working group should be established to examine the future of the industry and investigate why other sectors (distribution and exhibition, television, video and the city) did not invest in film production and whether some structural modification was needed;

(v) a second working group should consider tax reforms concerning accelerated write-offs, the withholding tax and a modified BES, compatible with the needs of film investment.

Discussion

Video

26 **Lord Brabourne** suggested that a levy should be raised from blank video tape sales, so that part of the £1 billion earned from sales could be recycled into production, in particular to help new entrants into the industry.

27 **The Prime Minister** opposed the introduction of a blank tape levy as it would adversely affect some consumers.

28 **Jake Eberts** sought a higher return to producers from video profits.

29 **Lew Wasserman** argued that the video industry should not be expected to contribute more towards production since the video sector had to meet video production (£3-£6) and advertising costs.

30 **Jeremy Thomas and Alan Sapper** disputed the cost of producing a film video and said it had been reduced to about 60p.

Television

31 **Nigel Stafford Clarke** thought independent producers should be protected from domination by the television companies by following the US example where broadcasters are prohibited from owning certain intellectual property rights.

32 He also thought new ITC licensees should be required to dedicate a small percentage of their programme expenditure to UK feature film production in order to generate more production and establish continuity.

33 **The Prime Minister** did not favour compulsion, although in the case of the independent access to television programming initiative it had been necessary to overcome the broadcasters' resistance by statutory provision.

Media

34 **Sir Ian Trethowan** outlined the operation of the MEDIA programme and the advantages he saw in improving film industry networks throughout Europe.

35 Mr Luce, Minister for the Arts, recognised that the MEDIA programme was moving into a new phase, and that the UK needed to ensure that the projects supported were those which would help expand and facilitate the UK production sector.

36 Wilf Stevenson thought the programme helped new entrants into the industry and increased opportunities for the distribution of production; without imposing a heavy bureaucratic structure.

Training

37 David Puttnam spoke about the need for substantial investment in training for film production. He thought the television companies could cater for their own training requirements but there needed to be training establishments for film. He considered the National Film and Television School to be the finest in the world, but without support the skills learned there would die out. The IMS study had pointed to a major skills shortage in the industry and had concluded that demand would increase and the skill required would change: all sectors would suffer if training were inadequate. He supported the introduction of a training levy and the establishment of a European Film Academy in the UK.

38 Mr Luce, the Minister for the Arts agreed that industry should help finance training. He also thought the UK should aim to have a European Academy established here.

39 Lew Wasserman thought incentives for investment were needed if production was to grow significantly. He explained how US film production had received a boost in the late 70s when film became eligible for tax credits. Investment had grown by 80% in 10 years, and had dropped by 19% since tax credits were removed. The very high export earnings arising from the distribution of films had persuaded the US government off the benefit of creating investment incentives. He believed investment levels in UK production would be transformed if the UK Government gave some specific encouragement to investors.

40 Mr Wasserman had found the UK a difficult place to set up discussions as there was no obvious centre, as in Hollywood. He proposed the formation of a European media centre, and believed that the country which established it would dominate production in Europe in the future. He warned that while the English language was an advantage to the UK at present, in 20-30 years all Europeans would speak English and the UK would no longer have the edge. He urged the Prime Minister to make London the media capital of Europe and create incentives for investment.

41 Sarah Radclyffe described how the need to find finance for medium-high budget films from the US affected British acting talent: US distributors required the employment of US stars in lead roles.

Taxation

42 **Larry Chrisfield** called for an investment scheme on the lines of the French SOFICA which produced about £100 million pa for film production. He explained that, since film production is a highly mobile activity, film makers would go wherever the production climate was most conducive and if the UK would not offer competitive conditions production would go elsewhere.

43 **John Woodward** thought the withholding tax was anomalous given the Government neutral taxation policy and represented a disincentive for US film makers and others who wished to employ foreign stars in the UK. He explained that stars expected their fees to be grossed up (by about 20-30%) so that they earned the same net fee as they would in the US.

44 **Jake Eberts** called for tax relief on film prints and advertising.

45 **The Secretary of State** proposed that the industry should set up its own working group to consider tax changes.

46 **The Prime Minister** agreed to a request from the industry that HM Treasury should be available to give the industry's tax group comments on any changes they may wish to recommend.

Conclusion

47 In response to Sir Richard's proposals, the Secretary of State said that:-

(i) the Government would provide a fund of £5 million over 3 years to provide pump priming finance to encourage European co-production;

(ii) the Government would adopt a positive approach towards the MEDIA programme in the way he had outlined in his speech;

(iii) the DTI would organise and chair a working party which would look at the structure of the film industry and how to introduce greater private sector finance into film production. All sectors of the industry would be represented on the working party, which would report by the end of the year;

(iv) the industry should set up its own working group to explore proposed tax changes, and to seek comments in discussion with Treasury officials, before presenting them to Treasury Ministers;

(v) the DTI would study proposals from the industry for a National Film Commission to improve the promotion of British films in the UK and overseas;

(vi) the Government would provide £150,000, as requested by Sir Richard, towards the cost of the

European Film Awards to be held in Glasgow in December.

48 Concluding the seminar, the Prime Minister thanked all of those who had attended for an informative and constructive discussion. It would be important for the working party that was going to be established to include representatives from those sectors of the industry who were present at the seminar - producers, television and finance - as well as other sectors, notably distribution and exhibition.

ANNEX A

NAMES OF GUESTS ATTENDING SEMINAR: 15 JUNE 1990

Sir Richard Attenborough
Producer
Marble Arch Productions Ltd

John Boorman
Film Director

Lord Brabourne
Producer
Mersham Productions

Larry Chrisfield
Taxation expert
Ernst and Young

Jake Eberts
Producer
Katevale Productions

Premila Hoon
Director
Film and Media Division
Guinness Mahon

Isaac Julien
Film Producer

Simon Linnett
Director
N M Rothschild and Sons Ltd

Linda Myles
Commissioning Editor for
Independent Productions
BBC TV

Simon Perry
Producer
Umbrella Films

Otto Plaschkes
Producer
Ariel Productions

Nik Powell
Chairman
Palace Pictures

David Puttnam CBE
Producer
Enigma Productions

Sarah Radclyffe
Producer
Working Title Ltd

Simon Relph
Chief Executive
British Screen Finance Ltd

Alan Sapper
General Secretary
ACTT

Ann Skinner
Producer
Skreba Productions

Nigel Stafford-Clarke
Producer
Zenith Productions

Wilf Stevenson
Chairman
British Film Institute

Jeremy Thomas
Producer
Recorded Picture Company Ltd

Sir Ian Trethowan
Chairman
Thames Television

Lew Wasserman
Chairman and Chief
Executive
MCA Inc

Michael Williams-Jones
President and Chief
Executive
United International
Pictures

John Woodward
Chief Executive
The Producers Association

OFFICIALS PRESENT

Mr P Owen	C.O.
Mr B Potter	PS/PM
Mr P Smith	DTI
Mrs C Lambert	DTI
Miss S Brown	OAL
Miss J Mole	OAL

dti

the department for Enterprise

N. S. P. M.
BHP
6/7

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

Barry H Potter Esq
Private Secretary to the
Prime Minister
10 Downing Street
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SW1A 2AA

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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071-215 5000

Telex 8811074/5 DTHQ G
Fax 071-222 2629

Direct line 071 215 5623
Our ref JW5AKZ
Your ref
Date 6 July 1990

Dear Barry

Thank you for your letter of 18 June explaining the Prime Minister's concern that my Secretary of State should pursue the possibility of securing funds for UK film production from the video distribution industry.

While the precise membership of the working party on the structure by the industry and how to attract greater private sector finance has yet to be finalised, Mr Forth has in fact already written to Mr Moore expressing the wish that the BVA should take part. His letter was in response to one from Mr Moore (copies of both are enclosed) which explained in some detail his Association's stance towards the film production industry. As you will see, there is no reference in Mr Moore's letter, which issued before the seminar, to the possibility of a direct contribution to the production industry. We will clearly need to press the BVA on this in the working party, particularly in the light of Mr Moore's apparent remarks at the seminar.

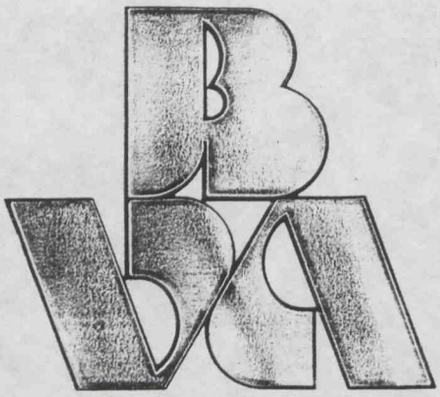
On a separate point, the note of the seminar has now been completed, and a copy is duly enclosed.

Copies of this letter and its enclosures go to Carys Evans (Chief Secretary's office) and Martin Le Jeune (Office of the Minister for Arts).

Yours
Rosalind Cole

Recycled Paper

From the Chairman



British Videogram Association
21/22 Poland Street
London W1V 3DD
Telephone 01-437 5722
Telex 295101

7 June 1990

Mr Eric Forth MP
Parliamentary Under Secretary of State
for Industry and Consumer Affairs
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

Dear Mr Forth

RE: THE VIDEO INDUSTRY'S PARTICIPATION IN BRITISH FILM FINANCE & TRAINING

I am now able to respond to your comments made at the meeting on 23 May. The British Videogram Association council met on 5 June and formulated the following views:-

1 The British video industry is concerned about the recent downturn of British film production and believes it, together with other sectors of the entertainment industry, has a responsibility to participate in its revival. The video industry is extremely enthusiastic about the future potential of British films.

2 The emergence of the video industry has brought significant benefits to the film distribution industry where a large number of theatrical releases of films (many of which are UK produced) are essentially financed by video distributors who use the theatrical release to enhance the awareness of such productions. Indeed, it is acknowledged that much of the recent revival of British cinema can be accredited to the awareness created by video consumption and that many productions have only been made viable by the opportunities created by the video market.

3 The video industry is opposed to any form of levy on pre-recorded cassettes to raise funds for film financing for many reasons:

i) Video is only one way in which films are commercially exploited. Cinema, Cable and Satellite television are examples of others. It would be quite unfair to attach a levy to one form of commercial realisation.

ii) Despite unprecedented growth throughout the 1980's, the video industry has, for the first time in its short history, witnessed a serious decline in rental activity during the first six months of 1990. This may be due to the deceleration of the economy, or to the introduction of aggressively competing media. It would be extremely untimely to expect the video industry to take on additional financial responsibilities when it must focus on its future stability.

iii) A levy on rental transactions would be both costly and administratively burdening to collect.

iv) Video rental has been successful because it offers value for money and convenience to the average working person. It is likely that such a levy would be extremely unpopular amongst the five million members of the general public who rent video cassettes each week.

v) The growth of the video industry has created employment in both manufacturing and tertiary industries. It is estimated that over 30,000 adults are employed and this can grow with the right encouragement.

4 The video industry believes that the biggest barrier to stimulating production in the United Kingdom is the effect of the capital allowance provision of the 1985 Finance Act. The video industry recommends a well structured tax incentive scheme such as accelerated write-offs, capital allowances or other forms of tax incentive.

5 The video industry believes that such changes in tax treatment can only be exploited with the appropriate development of talent and expertise. The British Videogram Association would therefore like to make a substantial contribution to the National Film and Television School to encourage this development. It is hoped that the British Videogram Association contribution would be matched by other trade organisations and associations.

In conclusion, the video industry believes that a combination of greater investment in training and the implementation of meaningful financial incentives will stimulate film production in Britain and directly impact the securing of a healthy future for the whole industry.

Yours sincerely

STEPHEN MOORE
Chairman

dti

the department for Enterprise

Eric Forth MP
Parliamentary Under Secretary of State for
Industry & Consumer Affairs

Department of
Trade and Industry

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Stephen Moore Esq
Chairman
British Videogram Association
21/22 Poland Street
LONDON
W1V 3DD

Direct line 071-215 4301
Our ref AM7
Your ref
Date 25 June 1990

Dear Mr Moore

Thank you for your letter of 7 June setting out the BVA council's views on some of the points I raised when I met you on 23 May. I note the council's comments on levies on pre-recorded cassettes and, of course, am pleased to see that the BVA intend to make a substantial contribution to the National Film and Television School.

As you know, following the Prime Minister's recent seminar, a working party on the structure of the film industry is to be set up, under the chairmanship of this Department. I would hope the BVA will participate in the working party which should provide a suitable forum for further discussion of the points made in your letter concerning the video distribution industry specifically. The film production industry will set up a second working party to explore whether changes are needed to the tax regime for film production

I hope this is helpful.

Yours ever

Eric Forth

ERIC FORTH

the Enterprise initiative

Recycled Paper

SEMINAR ON THE FILM PRODUCTION INDUSTRY

10 DOWNING STREET, 15 JUNE 1990

Present:

Prime Minister

Secretary of State for Trade and Industry

Minister for the Arts

Parliamentary Under Secretary of State for Industry and Consumer Affairs

Industry Speakers

Sir Richard Attenborough

Mr Simon Relph

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4 Simon Relph presented a paper which dealt with the difficulties of raising investment for film production and the current state of the production sector. He noted that, unlike the largely vertical structure of the US industry, in the UK production was divorced from the distribution and exhibition sectors; he sought to establish a case for a reassessment by Government of the industry. Mr Relph thought the potentially high overseas earnings warranted Government action to prevent the industry from disappearing. He sought measures to encourage distributors and exhibitors to invest in production, although he recognised that the reintroduction of either a levy on cinema admissions or 100% capital allowances were undesirable. He also sought ways of encouraging television and video companies to take on investment risks.

5 Mr Relph explained that British producers felt themselves disadvantaged compared with potential European, Canadian and Australian co-production partners, all of whom could call on substantial state aids.

6 Mr Relph referred to a number of organisations which helped promote British film and in particular welcomed the development of Local Authority Film Commissions designed to help production their areas.

7 Mr Relph also described the British Film Partnership, an arrangement negotiated between unions, actors, technicians and the facilities sector, which enables low budget films to be made with fewer people for reduced costs. Under the scheme participants in a film were paid less than the normal rate initially, with the balance being met from UK revenues. The aim was to enable films to be made to appeal to particularly British tastes and which therefore could not rely on overseas sales.

8 In the context of labour costs, Mr Relph stated that, over the last 5 years, technicians employed on films in which, eg British Screen had invested, had been paid at the same rate, without increases for inflation. In contrast, the cost of employing actors had risen. This was because, in order to finance productions, it was necessary to secure international pre-production sales and this meant employing more internationally renowned actors (notably US).

9 Mr Relph concluded that the industry's position was paradoxical: there was a high demand for its products but insufficient investment to produce. He thought that if Government could help improve the climate for investment the industry should be able to stand on its own feet and make a greater contribution to the economy.

Government paper

10 The Secretary of State then gave a paper (circulated in advance to Ministers and officials) outlining the Government's policy toward the film industry, in the context of its broader

economic an industry policies.

Discussion

11 Points raised in the first two papers were elaborated on by other participants.

Investment

12 **Otto Plaschkes** referred to the high profits which could be realised in the UK from distribution, exhibition and sales of film and video products, but explained that very little was recycled into UK production. He thought the City had a negative attitude toward film investment as, although some banks would provide cash-flow facilities, they would not participate in equity investment. Mr Plaschkes called on the Government to create a framework which would enable film and video distributors and financiers to invest in production.

13 **The Prime Minister** replied that the Government was not preventing other sectors from investing in production. If there were some legal blockage which prevented an integrated structure from developing it would be for Government to tackle the problem. If, however, the lack of investment by distributors and exhibitors were simply a question of commercial judgement the problem would be for the production industry to deal with.

14 **Wilf Stevenson** explained that producers sought a mechanism which would encourage other sectors to invest in production.

15 **Simon Linnett** referred to Rothschild's experience of investing in Goldcrest, which had crashed at the expense of City investors. He said the entertainment industry generally had a poor reputation in the City, and cited further examples (The Really Useful Company and Virgin) which had not performed as well as they might have done.

16 Mr Linnett thought the rate of return typical of film investment - 20% - low, compared with returns from similarly high-risk venture capital investments at 25%. He suggested that 100% capital allowances would provide a return of 25%.

17 Mr Linnett suspected that UK film producers were more concerned with critical acclaim than profits and said that the City should not be criticised for not investing in products which were not commercially viable.

18 **Premila Hoon** explained that while Guinness Mahon had financed film production for over 10 years, this was always on the basis of discounted cash flow secured against guaranteed equity investment from other sources. City investors, used to speculation and high risk, did not regard film production as a serious business because revenues were uncertain. A more positive climate prevailed in the US, where attitudes to risk taking were different. Ms Hoon thought a constructive environment was needed in the UK to make film investment

attractive. She suggested a fund be created which would give tax breaks to private investors whose investment was matched £ for £ by the film industry. If British Screen managed the fund the scheme would have the benefits of (i) a wide portfolio (to spread risks), (ii) management by experienced film financiers; (iii) the possibility of high leverage; and (iv) increased bargaining power when negotiating distribution deals.

Film and television

19 Lord Brabourne and Sir Ian Trethowan thought the change in the ITV levy had deterred television companies from investing in film production.

20 The Prime Minister pointed out that costs to advertisers on ITV Channels had risen to prohibitive levels and downward pressure had to be exerted on prices by changing to a revenue levy.

21 Ann Skinner explained that television companies in Continental Europe were more involved in film production, and contributed a larger proportion to film budgets than their British counterparts. British product was competing with a cheap and constant supply of English language material from the US which depressed the value of the domestic product.

22 The Prime Minister pointed out that competition between television channels was novel in the UK; the ITV companies had for years enjoyed a monopoly not experienced by other European channels.

State aids

23 Simon Perry described the advantages available to French production, including investment incentives and a domestic cinema sector much larger than the UK's.

24 The Prime Minister thought that the various subsidies available in other Member States should be challenged through the EC Commission in order to create conditions which did not distort competition.

Second Industry Paper

25 Sir Richard Attenborough summarised the points made in the previous discussion and put forward a number of proposals to stimulate the production sector:

(i) the Government should declare its support for the EC's MEDIA 95 programme;

(ii) the Government should make available pump-priming funding for European co-production;

(iii) promotional bodies should be created to market British film overseas and to encourage and facilitate film making in the UK;

(iv) a working group should be established to examine the future of the industry and investigate why other sectors (distribution and exhibition, television, video and the city) did not invest in film production and whether some structural modification was needed;

(v) a second working group should consider tax reforms concerning accelerated write-offs, the withholding tax and a modified BES, compatible with the needs of film investment.

Discussion

Video

26 **Lord Brabourne** suggested that a levy should be raised from blank video tape sales, so that part of the £1 billion earned from sales could be recycled into production, in particular to help new entrants into the industry.

27 **The Prime Minister** opposed the introduction of a blank tape levy as it would adversely affect some consumers.

28 **Jake Eberts** sought a higher return to producers from video profits.

29 **Lew Wasserman** argued that the video industry should not be expected to contribute more towards production since the video sector had to meet video production (£3-£6) and advertising costs.

30 **Jeremy Thomas and Alan Sapper** disputed the cost of producing a film video and said it had been reduced to about 60p.

Television

31 **Nigel Stafford Clarke** thought independent producers should be protected from domination by the television companies by following the US example where broadcasters are prohibited from owning certain intellectual property rights.

32 He also thought new ITC licensees should be required to dedicate a small percentage of their programme expenditure to UK feature film production in order to generate more production and establish continuity.

33 **The Prime Minister** did not favour compulsion, although in the case of the independent access to television programming initiative it had been necessary to overcome the broadcasters' resistance by statutory provision.

Media

34 **Sir Ian Trethowan** outlined the operation of the MEDIA programme and the advantages he saw in improving film industry networks throughout Europe.

35 Mr Luce, Minister for the Arts, recognised that the MEDIA programme was moving into a new phase, and that the UK needed to ensure that the projects supported were those which would help expand and facilitate the UK production sector.

36 Wilf Stevenson thought the programme helped new entrants into the industry and increased opportunities for the distribution of production; without imposing a heavy bureaucratic structure.

Training

37 David Puttnam spoke about the need for substantial investment in training for film production. He thought the television companies could cater for their own training requirements but there needed to be training establishments for film. He considered the National Film and Television School to be the finest in the world, but without support the skills learned there would die out. The IMS study had pointed to a major skills shortage in the industry and had concluded that demand would increase and the skill required would change: all sectors would suffer if training were inadequate. He supported the introduction of a training levy and the establishment of a European Film Academy in the UK.

38 Mr Luce, the Minister for the Arts agreed that industry should help finance training. He also thought the UK should aim to have a European Academy established here.

39 Lew Wasserman thought incentives for investment were needed if production was to grow significantly. He explained how US film production had received a boost in the late 70s when film became eligible for tax credits. Investment had grown by 80% in 10 years, and had dropped by 19% since tax credits were removed. The very high export earnings arising from the distribution of films had persuaded the US government off the benefit of creating investment incentives. He believed investment levels in UK production would be transformed if the UK Government gave some specific encouragement to investors.

40 Mr Wasserman had found the UK a difficult place to set up discussions as there was no obvious centre, as in Hollywood. He proposed the formation of a European media centre, and believed that the country which established it would dominate production in Europe in the future. He warned that while the English language was an advantage to the UK at present, in 20-30 years all Europeans would speak English and the UK would no longer have the edge. He urged the Prime Minister to make London the media capital of Europe and create incentives for investment.

41 Sarah Radclyffe described how the need to find finance for medium-high budget films from the US affected British acting talent: US distributors required the employment of US stars in lead roles.

Taxation

42 Larry Chrisfield called for an investment scheme on the lines of the French SOFICA which produced about £100 million pa for film production. He explained that, since film production is a highly mobile activity, film makers would go wherever the production climate was most conducive and if the UK would not offer competitive conditions production would go elsewhere.

43 John Woodward thought the withholding tax was anomalous given the Government neutral taxation policy and represented a disincentive for US film makers and others who wished to employ foreign stars in the UK. He explained that stars expected their fees to be grossed up (by about 20-30%) so that they earned the same net fee as they would in the US.

44 Jake Eberts called for tax relief on film prints and advertising.

45 The Secretary of State proposed that the industry should set up its own working group to consider tax changes.

46 The Prime Minister agreed that HM Treasury should be represented on the industry's working party.

47 Conclusion In response to Sir Richard's proposals, the Secretary of State said that:-

(i) the Government would provide a fund of £5 million over 3 years to provide pump priming finance to encourage European co-production;

(ii) the Government would adopt a positive approach towards the MEDIA programme in the way he had outlined in his speech;

(iii) the DTI would organise and chair a working party which would look at the structure of the film industry and how to introduce greater private sector finance into film production. All sectors of the industry would be represented on the working party, which would report by the end of the year;

(iv) the industry should set up a working party to explore proposed tax changes with Treasury officials, before submitting them to Treasury Ministers;

(v) the DTI would study proposals from the industry for a National Film Commission to improve the promotion of British films in the UK and overseas;

(vi) the Government would provide £150,000, as requested by Sir Richard, towards the cost of the European Film Awards to be held in Glasgow in December.

48 Concluding the seminar, the Prime Minister thanked all of those who had attended for an informative and constructive

discussion. It would be important for the working party that was going to be established to include representatives from those sectors of the industry who were present at the seminar - producers, television and finance - as well as other sectors, notably distribution and exhibition.

ANNEX A

NAMES OF GUESTS ATTENDING SEMINAR: 15 JUNE 1990

Sir Richard Attenborough
Producer
Marble Arch Productions Ltd

John Boorman
Film Director

Lord Brabourne
Producer
Mersham Productions

Larry Chrisfield
Taxation expert
Ernst and Young

Jake Eberts
Producer
Katevale Productions

Premila Hoon
Director
Film and Media Division
Guinness Mahon

Isaac Julien
Film Producer

Simon Linnett
Director
N M Rothschild and Sons Ltd

Linda Myles
Commissioning Editor for
Independent Productions
BBC TV

Simon Perry
Producer
Umbrella Films

Otto Plaschkes
Producer
Ariel Productions

Nik Powell
Chairman
Palace Pictures

David Puttnam CBE
Producer
Enigma Productions

Sarah Radclyffe
Producer
Working Title Ltd

Simon Relph
Chief Executive
British Screen Finance Ltd

Alan Sapper
General Secretary
ACTT

Ann Skinner
Producer
Skreba Productions

Nigel Stafford-Clarke
Producer
Zenith Productions

Wilf Stevenson
Chairman
British Film Institute

Jeremy Thomas
Producer
Recorded Picture Company Ltd

Sir Ian Trethowan
Chairman
Thames Television

Lew Wasserman
Chairman and Chief
Executive
MCA Inc

Michael Williams-Jones
President and Chief
Executive
United International
Pictures

John Woodward
Chief Executive
The Producers Association

ECON Pvt: Film Summary Pt 3

CCPU.

dti

the department for Enterprise

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Trade and Industry

n.b. P.M.
BAP
3/7

Rt Hon Norman Lamont MP
Chief Secretary
HM Treasury
Whitehall
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Department of Trade and Industry

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Our ref JW1ATE
Your ref
Date 3 July 1990

Dear Norman

at flop

FILM PRODUCTION INDUSTRY

Thank you for your letter of 14 June.

I am grateful to you for agreeing to proceed with the grant for European co-production on the basis outlined in my letter of 13 June and also for your agreement that the DTI should provide £50,000 towards this year's European Film Awards.

As you may know, it was agreed at the Prime Minister's seminar of 15 June that my Department should set up a working party to examine the structure of the industry and how to attract greater private sector finance to UK film production. Tax issues will not form part of this working party's remit but will be explored by a group established by the industry itself.

It was agreed that Treasury officials should discuss the industry group's proposals with them before presenting them to Treasury Ministers.

I am copying this letter to the Prime Minister, Malcolm Rifkind and Richard Luce.

Yours
Nicholas

Econ Pol: Film Industry
Pt 2

PART 2 ends:-

DTI to BHP 18.6.90

PART 3 begins:-

SS/DTI to CST 3.7.90

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